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Annual Report

GENDIS INC.

annual report for the year
ended January 31, 2004

COMPANY PROFILE

The evolution of Gendis Inc. dates back to 1939 with the founding of General Distributors, an importing distribution firm. The company was incorporated as General Distributors Canada Ltd. in November 1962, and was subsequently re-named Gendis Inc. in 1983.

Today, Gendis is active in the retail merchandising industry through SAAN and Red Apple Clearance Centre stores across Canada. The support office is located in Winnipeg, Manitoba. There are two distribution centres, one located in Winnipeg, Manitoba and one in Montreal, Quebec.

Saan Stores Ltd. operates 208 junior department and family clothing retail outlets across Canada under the SAAN format. SAAN carries familiar national brands as well as offering superior value through the many in-house private labels that meet or surpass the quality of national brands, but at a much more reasonable cost to the consumer.

The Red Apple Clearance Centre is a division of Saan Stores Ltd. operating 22 stores in the Prairie Provinces and Southern Ontario. Red Apple stores offer consumers discount pricing on quality family clothing, clothing basics, housewares, snacks as well as limited grocery items. Red Apple stores cater to the cost-conscious shopper looking for bargain-priced items while shopping with friendly and fast service.

Gendis also is active in real estate investment and management through its division, Gendis Realty.

The annual meeting of shareholders will be held Friday, June 4, 2004 at 11:00 a.m. CDT at the Fairmont Hotel, Two Lombard Place, Winnipeg, Manitoba.

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CHAIRMAN' S LETTER TO SHAREHOLDERS

SAAN STORES OPERATIONS

Saan Stores Ltd. ('Saan') results for the fiscal year just ended were disappointing. Saan was not immune to the calamities and misfortunes in the year that befell retailers. The SARS epidemic affected retail sales, particularly in Eastern Canada. This was followed by the mad cow disease in the Western provinces. The trade sanctions on softwood lumber exports and the effect of forest fires hampered sales in British Columbia. All these ills during the year were topped off with poor Christmas sales. We expect that these negative impacts are behind us as we head into the 2004 selling season. However, intense competition continues to affect our market share in all regions of the country. In 2004, Saan is leaner and healthier and we expect to show improved performance. Inventories are well controlled and there should not be the level of markdowns to clear surplus merchandise that occurred in 2003. The misfortunes of 2003 could not be foreseen and as a result, merchandise orders that were placed well in advance in order to achieve the sales projections had to be written-down since sales targets could not be met. This is a lesson learned which should not re-occur in 2004.

There have been significant personnel changes at Saan. The President, Vice-President, Sales & Operations, and the Vice-President, Logistics & Human Resources resigned. James Cohen assumed the position of interim President of Saan in January 2004. Two executives have joined the Company, Pamela O'Rourke, Vice President Merchandise Buying, and Michael Brown, Vice President Merchandise Planning and Allocation.

Early this year we engaged a nationally recognized consulting firm to assist us in the evaluation of Saan in the Canadian retail marketplace. Although, we are confident that Saan will become a profitable business by virtue of the substantial investment in information technology, the implementations of the Merchandise Improvement Program and the opening of new concept stores in "Power Centre" locations, we consider this independent evaluation a prudent step.

CORPORATE & REALTY OPERATIONS

Personnel changes have occured in our head office operations. James Cohen has been appointed Executive Vice-President of Gendis Inc. David Drybrough has retired as Vice-President, Finance. He will remain available to provide consulting advice. Ernest Reinfort, presently the Comptroller of Gendis. Inc., has been appointed the Vice-President, Finance.

The bright spot in the past year was the Manitoba Hydro announcement that the Gendis Inc. owned real estate properties in downtown Winnipeg had been selected as the site for the construction of a 400,000 square foot signature building. The details of the sale are presently being finalized. Gendis will record the sale on the closing date of the transaction, anticipated to be the autumn of 2004.

During the year, we decided to further increase our investment in Fort Chicago Energy Partners L.P. through direct purchases and by participation in Fort Chicago's distribution reinvestment plan. This investment has added value to Gendis. At year end, the investment has an unrealized appreciation of $6.6-million representing $0.43 per share. The future outlook for this investment is positive.

We consider that the share price of our Gendis stock to be undervalued. Accordingly, we intend to complete the purchase for cancellation of approximately 0.8-million shares in the current year through our announced Normal Course Issuer Bid.

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On behalf of our Board of Directors, I would like to thank our shareholders, suppliers and customers for their efforts in this most difficult of times. We feel confident that the current year will yield better results.

Albert D. Cohen
Chairman, President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial highlights for the past three fiscal year ends are summarized as follows:

	Jan. 2004 ($000's)	Jan. 2003 ($000's)	Jan. 2002 ($000's)
Revenue			
Retail	**311,098**	321,449	336,145
Corporate & Real Estate	**633**	238	272
	311,731	321,687	336,417
Net earnings (loss)			
Retail	**(8,712)**	(3,617)	2,204
Corporate & Real Estate	**(432)**	3,969	14,484
	(9,144)	352	16,688
Earnings (loss) per share	**(0.60)**	0.02	0.98

RETAIL OPERATIONS

Fiscal year 2004 compared with fiscal year 2003

Fiscal 2004 was a difficult year for Saan Stores Ltd. ('Saan') Approximately 60% of Saan's sales volume is derived from smaller market stores in Western Canada. This market area is very dependent on the health of agricultural and natural resource based industries. The economy in these areas of the country continues to be affected by a series of negative events such as trade sanctions for forestry product and livestock.

The Canadian retail environment remains very competitive. There is increased competition from non-traditional retailers such as Costco and Loblaws who are expanding their offerings to include more apparel, footwear and general merchandise. Consumer shopping patterns are changing and moving away from traditional downtown areas or regional shopping centres to "power centres" anchored by large discount retailers.

New Concept Store

Recognizing the changing shopping patterns of consumers, Saan has undertaken the initiative to open new format 10,000 square foot SAAN stores in "power centres". These centres are becoming the hub of retail activity in many markets. The new format offers promise for the future of Saan and management is committed to making this strategy a success.

Merchandising Improvement Program

The other major initiative of Saan, the Merchandise Improvement Program ('MIP'), experienced significant progress this past year. By the end of August 2003, Merchandising was reorganized and re-structured into two divisions, Buying and Planning & Allocations. Pamela O'Rourke, Vice President Merchandise Buying, and Michael Brown, Vice President Merchandise Planning and Allocation, were hired to lead these functions. This structure will enable Saan to develop the skills and maintain the focus required to improve results. Essential to MIP is the provision of better information, analytical tools and operational tools that facilitate improved management practices. By midyear, JDA's Arthur RAPID Product and Channel Planning application had been installed and staff trained on its use. This is a significant improvement in the tools available to properly analyze the business and plan future activities. For the remaining systems necessary to support merchandising, a detailed vendor analysis was completed by the end of June 2003 and the Retek Merchandise System and related modules were selected. The Allocation module was the first module selected to be installed. This phase of the project commenced in August 2003 and will be completely installed and staff trained by the end of March 2004. Detailed planning for the remainder of the project will take place in 2004 and the balance of the installations will commence in the fall of 2004.

The keys to success for this initiative will be: teams of specialists, consistent and disciplined processes, and leading edge management tools.

Merchandising Strategies

The Saan merchandising strategy was improved to better focus on building SAAN brand equity and strengthening the value of the SAAN product offering. These objectives will be accomplished through developing and executing consistently to a diversified brand portfolio that meets the needs of our defined customer. Each of the brands will be "exclusive to SAAN" and have their own point of view and standards for quality, fit, labeling, and packaging. Emphasis will be placed on maximizing profit through a superior sourcing portfolio inclusive of direct and indirect channels. A strategic vendor matrix has been developed with all vendors being measured on the same criteria inclusive of sell through, gross profit, consistency of quality and fit, "on-time-in-full" delivery, and adherence to Saan's code of supplier ethics. The positive impact of these initiatives will be seen in 2004.

Planning and Allocations

Fiscal 2004 was a year of implementing the changes. The restructuring and enhanced focus on planning in Merchandising will result in significant benefits in 2005.

There will be a more disciplined approach to the development of the merchandising plan (supporting the merchandise strategic direction) combining product and location factors, into a single corporate plan. Also, there will be disciplined monitoring of performance to plan, with course correction as needed. There will be an ongoing analysis and rationalization of our product mix at the commodity, department, item and sku level, with a view to "raising the bar" in terms of all performance measures. Structured adherence to Open-to-Buy plans at the commodity and department level will provide greatly improved control of inventory. Product in the replenishment program, i.e. merchandise in stock year-round, will be rebuilt through rationalization and improved in-stock positions. This highly profitable segment of our product mix will see significant growth in sales along with improvement in inventory control. With the implementation of the Retek Allocation Tool, along with enhancements in business processes, there will be a significant improvement in the allocation of inventory to stores. Allocation of inventory, down to a color and size level, will be based initially on individual stores sales potential and, in-season, will be based on actual performance. This will increase the efficiency of our inventory investment.

Marketing

The Marketing department continued to support merchandising initiatives through enhanced flyer and Point-Of-Purchase ('POP') advertising. For fiscal 2005, the increasing focus on brand development through in-store merchandising will be reflected in the mass-distribution flyer program to build a stronger association for SAAN customers. POP materials will reinforce the flyer program while adding visual impact at store level.

Operating Results

In the 1st quarter of the year, Saan achieved an 8% increase in same store sales, with all regions of the country being well ahead of last year. The sales increase was achieved along with significant markdowns as seasonal merchandise was cleared in order to limit carryover. In the 2nd quarter, same store sales were marginally better than last year with mixed results by region. Eastern Canada fared better than Western Canada. Same store sales in the 3rd quarter were 5% below last year with all regions of the country showing declines. Ontario, Quebec, and British Columbia fared the best, while Alberta and Manitoba fared the worst. The Christmas selling period, one of the most important sales seasons at Saan, was very disappointing. The 4th quarter resulted in a 4% same store sales decline with all regions showing declines. Again, the largest declines were in Western Canada.

Annually, on a same store basis, sales declined by 1%. On a geographic basis, the Maritimes posted a decline of 2%, Quebec improved by 1%, Western Canada declined 2%, while Ontario was flat with last year. On a merchandising category basis, same store sales in women's wear declined 1%, men's wear declined 5%, children's wear was flat, domestics declined 2%, accessories increased 1% and hardlines declined 6%. On a store format basis, same store sales declined 2% in SAAN but increased 6% in the Red Apple Clearance Centres. Gross profit dollars declined by 4.6% from fiscal 2003, primarily from reduced sales volumes. Gross margins declined 60 basis points from fiscal 2003 primarily from increased markdowns that were partially offset by a reduction in shrinkage. Positive results were realized again in the reduction of shrinkage through improved audit procedures and improved store security that used the source tagging of product and the Electronic Article Surveillance system. The result was a reduction of over 30% in losses attributed to shrinkage compared to fiscal 2003. Store expenses remained even with last year and were marginally higher as a percentage of sales. Support office costs declined from fiscal 2003 but remained even as a percentage of sales.

The change in store locations during fiscal 2004 is as follows:

	Opened	Closed	Converted Format	End of year
SAAN	13	12	(10)	208
Red Apple Clearance Centre	3	1	10	22
	16	13	—	230

Outlook

To assist in assessing the critical challenges facing Saan, experienced retail consultants have been engaged to provide an independent assessment of the strategic initiatives of Saan.

During fiscal 2005, SAAN is planning to open fifteen locations, ten in the first quarter and five in the third quarter. Four non-performing SAAN locations will be closed at the end of fiscal 2005, as leases expire. Also, two SAAN locations will be converted to the Red Apple Clearance Centre format in the first quarter.

Saan is targeting a sales increase of 4% on a same store basis for fiscal 2005. Gross margin rates are expected to increase over fiscal 2004 due to increased initial markons and reduced markdowns. Store operating costs as a percentage of sales are expected to increase as a result of higher store facility costs for stores opening in fiscal year 2004 and fiscal year 2005. Support Office costs will increase over fiscal 2004 due to additional software amortization associated with continuing information technology enhancements.

Fiscal year 2003 compared with fiscal year 2002

Saan fared relatively well in a difficult year for many Canadian retailers. On a same store basis, sales declined by 1%. On a geographic basis, the Maritimes posted a decline of 2%, Quebec at 3% and Western Canada at 2%, while Ontario posted a same store sales increase of 2%. Accordingly, the sales decline of $14.7-million from the prior year was primarily due to the reduction of 12 retail stores in fiscal 2002. Gross margin percentages declined slightly from fiscal 2002 primarily from higher markdowns in order to reduce inventory carryovers. Improvement was realized in reduction in shrinkage of over 40% as compared to fiscal 2002 through improved audit procedures and improved store security that used the source tagging of product and the Electronic Article Surveillance system. Store expenses remained controlled, essentially even with last year as a percentage of sales. Support Office costs increased over the prior year due to additional amortization associated with information technology enhancements.

Under the banner statement, "Better than you remember," SAAN opened a new concept store in Mission, BC offering better customer service, better selection, better prices, and a better atmosphere in which to shop compared to other retailers. The new concept store's selection of items was narrower than the typical SAAN store, focusing more on family clothing and footwear and with no hardlines or domestics. The new merchandise presentation is planned to increase items per customer and dollars per customer. This store was located in close proximity to existing major retailers to capitalize on established high traffic flows. The opening was a success. A second new concept store opened in Winnipeg, on September 4, 2002. On October 3, 2002, new concept stores were also opened in Aldergrove, BC and Red Deer, Alberta. The new image has been well received. During fiscal 2003, 19 stores were renovated to reflect the new concept look.

The change in store locations during fiscal 2003 is as follows:

	Opened	Closed	Converted Format	End of year
SAAN	5	18	(2)	217
Red Apple Clearance Centre	–	–	2	10
	5	18	–	227

CORPORATE AND REAL ESTATE OPERATION

Fiscal year 2004 compared with fiscal year 2003

The Corporate and Real Estate Operation incurred a loss of $0.4-million compared to earnings of $4.0-million for fiscal 2003. The major reason for the decline was that interest and other finance costs increased $2.9-million due to the settlement of an option held by a previous lender to the Company and a reduction to restructuring credits of $1.7-million from the prior year. The finance cost and the restructuring credits are non-recurring transactions. Concerning the finance cost, a previous lender to the Company gave notice of its intent to exercise its option to acquire from the Company 1.0-million units of Fort Chicago at $6.00 per unit. The Company elected to retain the 1.0-million units and settled the option by paying the difference between the fair market value of the units and the option price. This process provided the Company with the opportunity to retain the investment in Fort Chicago on a tax advantaged basis. Subsequent to the option date, the unit value of the investment has appreciated from the $8.90 value at the option date to $11.06 at April 2, 2004. At April 2, 2004, the investment has a fair market value of approximately $25-million, which is $8-million in excess of the carrying value. This represents an unrealized appreciation of approximately $0.53 per share.

In fiscal 2004, the Company decided to further increase its investment in Fort Chicago Energy Partners L.P. by $1.9-million, $0.7-million through direct purchases and $1.2-million by participation in Fort Chicago's distribution reinvestment plan. The Company considers the income distributions from these units to present better returns currently and in the future than short-term commercial debt instruments.

In fiscal 2004, the Company recorded a restructuring credit of $0.3-million as the final cash distribution from the Trustee of the Estate of Greenberg Stores Limited. With the final distribution from the Trustee, the restructuring process has come to a final resolution and is essentially complete.

In fiscal 2004, a $0.4-million management fee charged by the Corporate & Realty segment to the Retail segment ceased.

In fiscal 2004, four properties that supported the Retail Operations were sold for a gain of $0.5-million. At the 2004 fiscal year end, the Company owned fourteen properties of which seven are classified as commercial (including five properties with both a Company store and commercial tenants) and seven are employed solely in support of Retail Operations. Two properties, formerly designated as surplus, became employed to support Retail Operations in the year. In fiscal 2004, the vacancy rate on the commercial properties was 3% compared to 2% in the prior year.

Outlook

For fiscal 2005, a segment operating profit is expected compared to the loss in fiscal 2004. There were $2.6-million of net expenses in fiscal 2004 that are not expected to re-occur in fiscal 2005.

Manitoba Hydro has announced that certain of the Company's real estate properties have been selected as the site for the construction of a 400,000 square foot signature building in downtown Winnipeg, Manitoba. Manitoba Hydro is in the process of conducting its due diligence and a definitive agreement is expected to be finalized by late spring 2004. The Company will record the sale on the closing date of the transaction, anticipated to be the autumn of 2004.

Early in fiscal 2005, the Company invested $1-million in shares of Opti Canada Inc. ('Opti') via a private placement. Opti expects to implement a new technology that will enable it to be a low cost producer in the oil sands extraction process. Opti will have completed an Initial Public Offering by early summer of 2004. Along with debt financing, Opti will contribute $1.7-billion as a partner with Nexen Inc. in the $3.4-billion Long Lake project. Management considers this a good investment on both a short-term and a long-term basis.

During fiscal 2005, the Company intends to complete its Normal Course Issuer Bid to acquire 0.8-million of its own shares for a estimated cost of $1.8-million.

In early fiscal 2005, the Company secured a $10-million short-term line of credit from its banker, pledging its investment in Fort Chicago as collateral. The primary purpose of the line of credit is to provide the necessary flexibility to pursue investment opportunities. The line of credit expires on October 1, 2004.

Fiscal year 2003 compared with fiscal year 2002

Commencing in fiscal 2003, as a consequence of the reduction in commercial rent due to property sales over the last few years, the Company's real estate operation was combined with the Corporate segment to form one business segment. The Corporate and Real Estate Operation enjoyed a segment operating profit, after intersegment adjustments, of $1.3-million compared to a loss of $1.1-million for the prior year. A significant provision for employee termination costs did not reoccur, offset by reduced investment income from short-term funds.

In fiscal 2003, the Company recorded a restructuring credit of $2.0-million, comprised of a $0.8-million cash distribution from the Trustee of the Estate of Greenberg Stores Limited and a $1.2-million reduction in the provision for store lease termination and other claim settlements.

In fiscal 2003, the Company decided to increase its investment in Fort Chicago Energy Partners L.P. The $5.4-million investment was acquired under a longer term investment strategy and accordingly, purchases in the prior year of $2.9-million acquired for short term investment returns were reclassified as long-term investments

In fiscal 2003, one property that supported the Retail Operations was sold and one commercial property was purchased for potential development. At the 2003 fiscal year end, the Company owned sixteen properties of which five are classified as commercial (including two properties with both a Company store and commercial tenants) and nine are employed solely in support of Retail Operations. Two properties, formerly employed to support Retail Operations, both of which are vacant, were designated as surplus. In fiscal 2003, the vacancy rate on the commercial properties was 2% compared to 3% in the prior year.

INTEREST & OTHER FINANCE COSTS

Fiscal year 2004 compared with fiscal year 2003

Interest and other finance costs increased $3.0-million primarily due to the Corporate & Realty segment incurring a financing cost of $2.9-million to settle an option held by a previous lender to the Company.

The nominal interest rate of the revolving loan in the Retail Operations, was bank prime plus 1/2 of 1%. The average effective interest cost of the revolving loan was 4.8% for fiscal 2004 and 2003. The average effective interest cost of capital lease obligations was 8.2% and 9.9% respectively for fiscal 2004 and 2003.

Outlook

For fiscal 2005, the effective interest rate of the revolving credit facility is expected to decline moderately, matching the trend in bank prime rates. Average borrowing for the Retail Operation is expected to decline to approximately $26-million from $30-million in 2004.

Fiscal year 2003 compared with fiscal year 2002

Interest and other finance costs declined $0.4-million primarily due to lower net borrowings throughout the year. The nominal interest rate of the revolving loan, used solely as financing for the Retail Operations, was bank prime plus 1/2 of 1%. The average effective interest cost for the Retail Operation for the revolving loan and capital lease obligations was 6.3% and 6.2% respectively for fiscal 2003 and 2002.

INCOME TAXES

Fiscal year 2004 compared with fiscal year 2003

In fiscal 2004, the recorded income tax consists primarily of Large Corporation Taxes.

There is a potential future income tax asset net of liabilities of $8.6-million that the Company has not yet recognized as conditions of reasonable assurance have not been met. Included in that amount is a future tax asset of $12.0-million pertaining to non capital loss carryforwards that are subject to expiry, after mitigating capital cost allowance claims, in the years 2005 to 2011.

Outlook

The realization of the future tax asset that is not recorded on the financial statements is primarily dependent on a return to profitability in the Retail Operations.

In fiscal 2002, the Canada Revenue Agency ('CRA'), formerly the Canada Customs and Revenue Agency completed its review of corporate income tax filings related to the sale of shares of Sony of Canada back in 1995. CRA advised the Company it was liable for an additional $28.4-million in taxes and interest. The Company immediately commenced proceeding to object to the reassessment, and, put on deposit with CRA out of the Company's available cash resources, the amount assessed to stop further interest from accruing. The Company's view is that all taxes relating to this sale had already been paid, and as such will continue to dispute the reassessment. In fiscal 2002, the Company filed a formal application with the Court of Queen's Bench to have the reassessment quashed on the basis that CRA did not have the authority or jurisdiction to issue such reassessment. The court hearing occurred in February 2004. We are awaiting the Court's decision.

In Management's view, the Company should be able to successfully challenge the re-assessment. However, the Company expects that the legal proceedings may be protracted with recovery not likely to occur within the next year.

Fiscal year 2003 compared with fiscal year 2002

In fiscal 2003, the recorded income tax recovery is primarily a future tax recovery net of Large Corporation Tax.

CASH FLOW REVIEW

	Jan. 2004 ($000's)	Jan. 2003 ($000's)	Jan. 2002 ($000's)
Working capital	**42,892**	57,286	61,909
Investments – long-term	**16,123**	14,189	6,000
Property & equipment	**44,105**	40,841	36,744
Credit facilities	**23,652**	22,507	16,061
Shareholders' equity	**109,978**	119,499	121,025
Cash flow from earnings	**(1,835)**	6,799	10,509
Net cash provided (used) by:			
operating activities	**8,234**	2,428	13,542
investing activities	**(11,573)**	(12,325)	(4,582)
financing activities	**(565)**	3,694	(34,399)

Net Cash Provided by Operating Activities

During fiscal 2004, operating activities provided cash flow of $8.2-million, primarily from the reduction of inventories. Cash flow from earnings was ($1.8)-million from losses in both the Retail and Corporate & Realty operations.

During fiscal 2003, operating activities provided cash resources of $2.4-million. Cash flow from earnings declined $3.6-million from the prior year, primarily due to reduced earnings from the Retail Operations.

Net Cash Used in Investing Activities

During fiscal 2004, net cash used in investing activities was $11.6-million, the result of the purchase of property & equipment of $11.2-million, the investment in Fort Chicago of $1.9-million, offset by proceeds from the sale of property and equipment of $1.6-million. Approximately $3.5-million of the purchase of property & equipment were real estate properties, primarily related to the securing of property in order to make a bid for the Manitoba Hydro building. Approximately 55% of the property & equipment acquisitions in the Retail operations were for new store openings and to maintain and improve the presentation of store premises, with the remainder of the property & equipment acquisitions related to upgrading information technology.

During fiscal 2003, net cash used in investing activities was $12.3-million, the result of the purchase of property & equipment of $7.6-million and the investment in Fort Chicago of $5.3-million. Approximately 72% of the property & equipment acquisitions were to maintain and improve the presentation of store premises. The remainder of the capital acquisition program related to upgrading information technology.

Net Cash Used in Financing Activities

During fiscal 2004, net cash used in financing activities was $0.6-million, $1.3-million in payments on capital leased assets, $0.4-million for acquiring the Company's shares under two Normal Course Issuer Bids, offset by $1.1-million from the increase in the credit facility at year-end. Up to 0.8-million shares representing 5% of the Company's outstanding capital could be acquired under a Bid for the twelve month period ending December 2004. At year-end, approximately 1% of the maximum allowable purchase for this Bid was made. The Company intends to purchase the remainder of the Bid and anticipates that the cash requirement would be approximately $1.8-million. The Company completed the purchase of the remainder of the Bid for the twelve month period ending December 2003 for $0.3-million in early fiscal 2004.

During fiscal 2003, net cash provided from financing activities was $3.7-million, $6.4-million from the increase in the credit facility at year-end offset by payments on capital leased assets of $0.8-million and $1.9-million from acquiring the Company's shares under two Normal Course Issuer Bids. Up to 0.8-million shares representing 5% of the Company's outstanding capital could be acquired under a Bid for the twelve month period ending December 2003. At the fiscal 2003 year-end, approximately 80% of the maximum allowable purchase for this Bid was made.

FINANCIAL REQUIREMENTS AND LIQUIDITY

The credit facility with Congress is considered sufficient to meet the Retail Operation's liquidity requirements for working capital and property & equipment acquisitions during the term of the facility to March 2005.

In fiscal 2004, the Retail Operation financed $1.6-million of property & equipment acquisitions, primarily computer equipment, through leases and $7.7-million by cash flow from operations and the credit facility. In fiscal 2005, the Company anticipates that $0.3-million of property & equipment will be acquired through leases and $7.6-million by cash flow from operations.

The Corporate and Realty Operation does not have external financing requirements. The Corporate and Realty Operation has cash resources of $4.6-million at the fiscal year end. Also, the Company owns 2.2-million Class A Units of Fort Chicago, a highly marketable security that had a market value of $22.7-million at year-end. In March 2004, the Company obtained at $10-million credit facility with its banker, the Bank of Nova Scotia. The credit facility is secured by the Company's investment in Fort Chicago Energy Partners L.P. The interest rate is the prime rate as established from time to time by the Bank of Nova Scotia. Loans are repayable on demand. The credit facility expires on October 1, 2004. The credit facility was obtained to allow the Company to make additional investments in Fort Chicago, make other investments as opportunities arise and to purchase the Company's shares under the Normal Course Issuer Bid.

RISKS AND UNCERTAINTIES

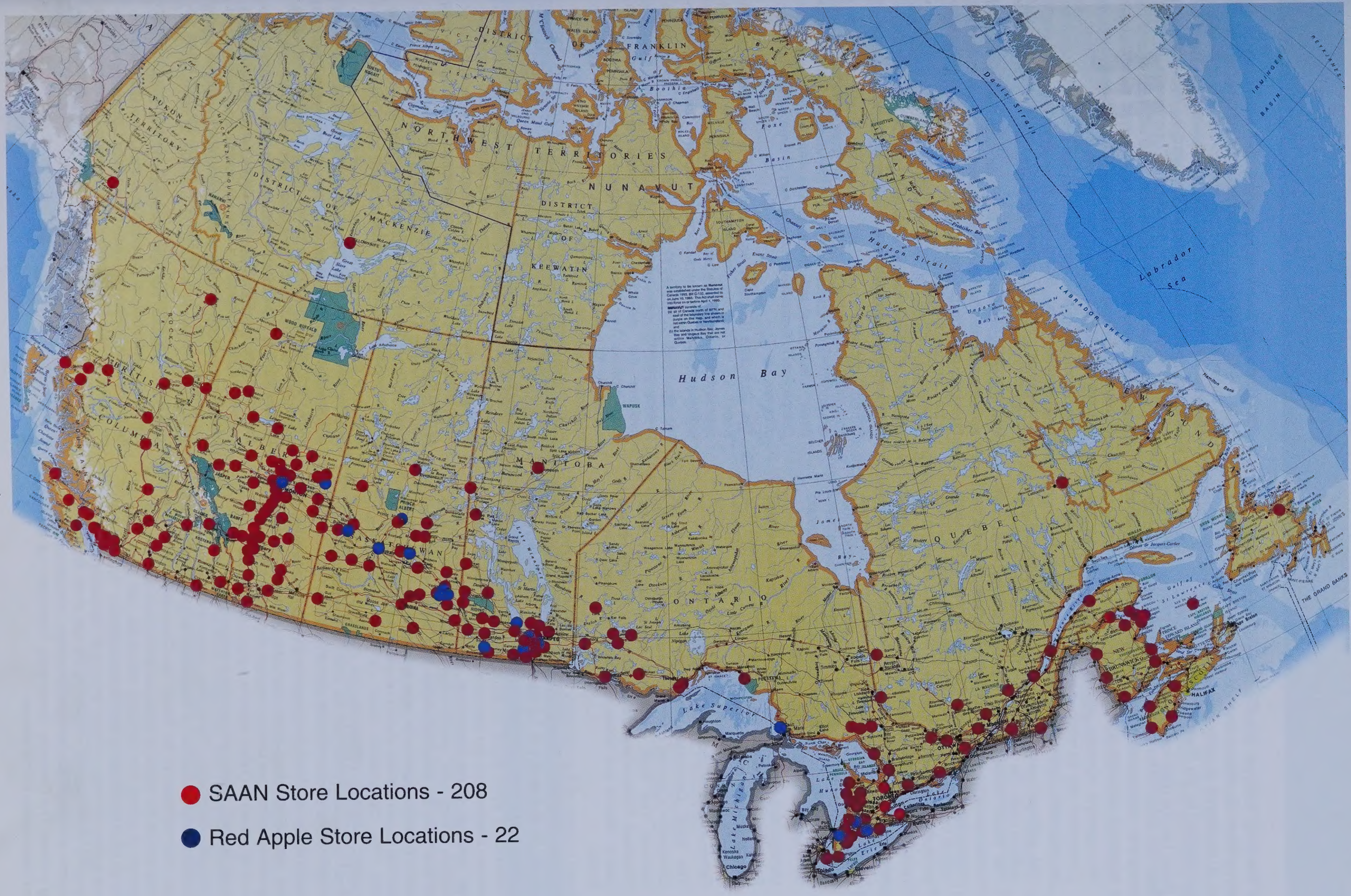
The principal risks and uncertainties faced by the Retail and Corporate and Realty Operations are common to all enterprises with which the Company competes in the Canadian consumer environment.

For retailing activities, the Retail Operation's focus has been on the niche market in smaller towns across Canada that major competitors have not entered. When major competitors enter the market in which Saan operates, a "Power Centre" typically may emerge. Saan conducts a reassessment of the market's potential. Depending on the reassessment, Saan may adjust the focus of its merchandise offering to customers, modify its advertising tactic, re-position its location to be in closer proximity to the "Power Centre" in order to benefit from the customer traffic flow the major competitors create, or a combination of these approaches. If the reassessment is unfavourable, Saan will vacate the market.

A significant risk exists in the pricing policies established by the lowest cost competitor with respect to national brand products. The Company has emphasized the development of in-house proprietary brands that provide differentiation in establishing pricing levels. Other risks, including the weather, the general state of the economy and changing consumer attitudes are normal business risks for which management establishes programs and other initiatives to achieve optimal operating performance. Approximately 60% of the Company's retail outlets are in western Canada and, accordingly, the Company is subject to regional effects of rural agriculture and resource based economies. The Company sources its merchandise from many suppliers in North America and Asia. Goods imported for resale are subject to the risk of fluctuation in currency values.

Approximately 70% of the Company's real estate locations are in support of the Retail segment's operations and the remainder is available for lease to commercial tenants that are also primarily operating in the consumer retail environment. Geographically, 80% of the real estate locations are in western Canada and 20% in central Canada.

Although the Company is confident that its objection to CRA's re-assessment will prevail, an unfavourable ruling would result in the Company recording an income tax expense of $28.4-million in a future period. There will be no financing requirement, as funds have been placed on deposit with CRA.


SAAN Store Locations - 208
Red Apple Store Locations - 22
Hudson Bay
Labrador Sea
Davis Strait
NORTHWEST TERRITORIES
NUNAVUT
DISTRICT OF MACKENZIE
DISTRICT OF KEEWATIN
MANITOBA
ONTARIO
QUEBEC
BRITISH COLUMBIA
Lake Superior
HALIFAX
Chicago

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The following analysis uses definitions contained in The Toronto Stock Exchange Report on Corporate Governance and is numbered in response to specific guidelines. This analysis was adopted by the Board of Directors.

1. The Board has the responsibility to direct the management of the business and affairs of the Corporation and towards that end has redefined the responsibilities of the established committees in order to improve corporate governance.
   (i) Management submits written strategic plans for the Corporation and its wholly-owned subsidiary to the Board for discussion. These plans are updated as required.
   (ii) The principal risks of the Corporation's business are outlined under the "Management Discussion and Analysis". The Board reviews these risks periodically upon the recommendation of the Audit Committee; sets policy for the management of these risks when appropriate; and receives reports from management on the manner by which the risks are being assessed and managed.
   (iii) On an annual basis, the Board appoints management for the ensuing year. Succession planning for the CEO position is ongoing and has been entrusted to the Human Resources and Compensation Committee. Management of Gendis Inc. advises that individuals are currently employed who possess the required skills and abilities to support, in detail, the broad responsibilities of management.
   (iv) Management has developed a formal Communications Policy which addresses the interests of the stakeholders of the Corporation, namely shareholders, employees, suppliers, customers, governments and the public. The Communications Policy has been approved by the Board.
   (v) The Audit Committee monitors the integrity of the Corporation's internal control and management information systems. The Audit Committee meets with the Vice-President, Finance and the shareholders' auditors twice a year to discuss and review such matters and report to the Board.
2. The Board consists of five members, three of whom are unrelated directors. An unrelated director as defined in the Corporate Governance Guidelines "is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director." An inside director is an employee of the Corporation or of a subsidiary. The Board has resolved that its composition should include a majority of unrelated directors. The Corporation does not have a "significant shareholder", which is defined by the Corporate Governance Guidelines as "a shareholder with the ability to exercise a majority of the votes for the election of the Board of Directors."
3. The Board states that it is composed of a majority of unrelated directors. Mr. Albert D. Cohen and Mr. James E. Cohen, management directors, are related directors. Mr. James E. Cohen is the son of Mr. Albert D. Cohen. Messrs. Jerry L. Gray, Lawrence O. Pollard and Barry C. Steers are unrelated directors.
4. The Corporate Governance Committee, composed exclusively of three outside/unrelated directors is responsible for proposing to the full Board new nominees to the Board. The Corporate Governance Committee solicits the names of nominees from Board members and management of outside and unrelated individuals, with appropriate experience, prior to making a final recommendation. To date, the Corporation does not have a formal process for assessing directors on an ongoing basis because, considering the size of the Board and the involvement of Board members on committees, assessment is an ongoing process. The Corporate Governance Committee has been assigned responsibility for this process.
5. The Corporate Governance Committee has been assigned the responsibility for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. The Chairman of the Corporate Governance Committee will discuss with each member of the Board the following topics: effectiveness of the Board as a whole, the Committees of the Board and the contribution of individual directors and will report back to the Board on an annual basis. The Chairman of the Corporate Governance Committee will take into account factors such as attendance at Meetings, age, other interests and responsibilities.
6. The Corporation provides an orientation and education program for new recruits to the Board. New nominees meet with senior management on key business, financial, operational and legal issues.
7. The Corporate Governance Committee and the Board have reviewed the size of the Board and its composition and state that a Board of 5 directors facilitate effective decision-making at this point in the Corporation's history.
8. The Human Resources and Compensation Committee has retained a compensation consultant to provide surveys to determine the appropriateness and form of the compensation of directors.
9. The Audit Committee is composed of three outside/unrelated directors. The Corporate Governance Committee is composed of three outside/unrelated directors. The Human Resources and Compensation Committee is composed of three outside/unrelated directors.
10. The Corporate Governance Committee is responsible to the Board for monitoring the development of the Corporation's approach to governance issues and the Corporation's response to Toronto Stock Exchange Corporate Governance Guidelines.
11. The Board of Directors, together with the CEO, continues to develop position descriptions for the Board and for the CEO involving the definition of the limits to management's responsibilities. The Board has limited management's monetary authority to $3 million per transaction. The Board is developing the corporate objectives which the CEO is responsible for meeting, which will be based upon implementing and executing the strategic plan as approved by the Board of Directors. A written position description for each Board committee has been adopted by the Board. Position descriptions for Board members will be developed.
12. The Board of Directors has appropriate structures and procedures in place to ensure that the Board can function independently of management. The procedure is for the outside/unrelated directors to meet independently of management prior to each Board Meeting. The structure is a Corporate Governance Committee Meeting. A "lead director" has been appointed, namely the chair of the Corporate Governance Committee.
13. The Audit Committee is composed only of outside directors. The Board is satisfied that the terms of reference of the Audit Committee are specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee has direct communication channels with the Vice-President, Finance and external auditors to discuss and review specific issues as appropriate. The Audit Committee duties include monitoring the integrity of the Corporation's internal control and management information systems through direct communication channels with the external auditors to discuss and review specific issues as appropriate.
14. The Board resolved that any committee of the Board or any individual director may, at the expense of the Corporation, and with the prior consent of the Corporate Governance Committee, engage an outside advisor. The Corporate Governance Committee would advise the Corporate Secretary to implement this procedure as required.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Corporation is responsible for the consolidated financial statements and all information contained in the Annual Report. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (GAAP). Significant accounting policies are described in Note 2 to the consolidated financial statements. Management exercised its best judgement in selecting appropriate accounting policies and providing estimates as part of the assurance that transactions are part of the reporting process. Management maintains a system of accounting and administrative controls that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded and financial records maintained, in order to provide relevant, reliable and timely financial information. Management considers financial information presented in the Annual Report to be consistent with the consolidated financial statements.

The Company's Board of Directors has appointed an Audit Committee consisting of three directors who are not executive officers or employees of the Corporation. The Board of Directors has delegated responsibility for the oversight of the financial reporting process to the Audit Committee. The Audit Committee meets periodically with management and the independent auditors to review the performance of their respective responsibilities and to discuss accounting policy and financial reporting matters. The Audit Committee assesses the audit plan of the independent auditors, the audit report and the results of the audit findings. The Audit Committee provides unrestricted access to the independent auditors to discuss audit and related findings on the integrity of the Corporation's financial reporting process, and the adequacy of the system of accounting and administrative controls. The Audit Committee provides a recommendation to the Board of Directors on the approval of the annual consolidated financial statements, annual report and the re-appointment of the independent auditors. The Audit Committee also reviews the annual Management's Discussion & Analysis, the interim consolidated financial statements and interim Management's Discussion & Analysis.

March 26, 2004

ALBERT D. COHEN
President, Chief Executive Officer &
Chairman of the Board of Directors

ERNEST B. REINFORT
Vice-President, Finance
& Comptroller

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Gendis Inc. as at January 31, 2004 and January 25, 2003, and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2004, and January 25, 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Winnipeg, Manitoba
March 26, 2004

PricewaterhouseCoopers LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT JANUARY 31, 2004

(thousands of dollars)

	2004 $	2003 $
ASSETS		
CURRENT ASSETS		
Cash and equivalents	**6,318**	12,246
Receivables	**3,548**	4,240
Inventories	**50,927**	61,930
Prepaid expenses	**3,050**	2,639
	63,843	81,055
INVESTMENT (note 3)	**16,123**	14,189
DEPOSIT ON INCOME TAX REASSESSMENT (note 8)	**28,361**	28,361
PROPERTY & EQUIPMENT (note 4)	**44,105**	40,181
ACCRUED PENSION ASSET (note 5)	**4,350**	4,350
	156,782	168,136
LIABILITIES		
CURRENT LIABILITIES		
Outstanding cheques	**1,347**	3,371
Accounts payable and accrued liabilities	**17,810**	18,802
Income and capital taxes payable	**285**	508
Current portion of capital lease obligations	**1,509**	1,088
	20,951	23,769
CREDIT FACILITY (note 6)	**23,652**	22,507
CAPITAL LEASE OBLIGATIONS (note 9)	**2,201**	2,361
	46,804	48,637
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)	**16,100**	16,279
RETAINED EARNINGS	**93,878**	103,220
	109,978	119,499
	156,782	168,136

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS

Albert D. Cohen
Director

James E. Cohen
Director

CONSOLIDATED STATEMENT OF EARNINGS (LOSS) AND RETAINED EARNINGS

FOR THE YEAR ENDED JANUARY 31, 2004
(thousands of dollars, except per share data)

	2004 $	2003 $
REVENUE	**311,731**	321,687
COSTS AND EXPENSES		
Cost of goods sold, selling, general and administrative expenses	**310,808**	315,242
Amortization of property & equipment	**7,623**	7,816
Interest and other finance expense (note 6)	**4,912**	1,962
	323,343	325,020
EARNINGS (LOSS) BEFORE THE UNDERNOTED	**(11,612)**	(3,333)
Restructuring credits (note 9)	**321**	1,984
Investment income (note 3)	**1,734**	1,398
Gain on sale of real estate properties	**468**	135
EARNINGS (LOSS) BEFORE INCOME TAXES	**(9,089)**	184
Income tax (provision) recovery (note 8)	**(55)**	168
EARNINGS (LOSS) FOR THE YEAR	**(9,144)**	352
Premium on shares purchased for cancellation (note 7)	**(198)**	(875)
RETAINED EARNINGS – beginning of year	**103,220**	103,743
RETAINED EARNINGS – end of year	**93,878**	103,220
EARNINGS (LOSS) PER SHARE – Basic and Diluted	**($0.60)**	$0.02

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JANUARY 31, 2004
(thousands of dollars)

	2004 $	2003 $
CHANGES IN CASH POSITION		
By operations		
Earnings (loss) for the year	**(9,144)**	352
Items not affecting cash:		
Amortization of property & equipment	**7,623**	7,816
Future income taxes	**—**	(278)
Restructuring credits	**—**	(1,153)
Loss (gain) on sale of property & equipment	**(314)**	62
	(1,835)	6,799
Net decrease (increase) in non cash working capital	**10,069**	(4,371)
	8,234	2,428
By investing activities		
Proceeds from sale of property & equipment	**1,575**	573
Expenditures for property & equipment (note 4)	**(11,214)**	(7,565)
Investment acquired	**(1,934)**	(5,333)
	(11,573)	(12,325)
By financing activities		
Net increase in credit facility	**1,145**	6,446
Payment of capital lease obligation	**(1,333)**	(874)
Shares purchased for cancellation	**(377)**	(1,878)
	(565)	3,694
DECREASE IN CASH	**(3,904)**	(6,203)
Reclassification of cash equivalents to investments (note 3)	**—**	(2,856)
NET CASH – beginning of year	**8,875**	17,934
NET CASH – end of year	**4,971**	8,875
Net cash is represented by:		
Cash and equivalents	**6,318**	12,246
Outstanding cheques	**(1,347)**	(3,371)
	4,971	8,875
Supplemental information:		
Interest paid	**4,954**	1,907
Income taxes paid	**142**	53

FOR THE YEAR ENDED JANUARY 31, 2004

1. NATURE OF OPERATION

The Corporation operates junior department and family clothing stores across Canada in the retail merchandising industry. Its retail outlets have a broad geographic base and operate under the names SAAN and Red Apple Clearance Centre.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The fiscal year represents the fifty-three week period from January 26, 2003 to January 31, 2004. Comparative figures are for the fifty-two week period from January 27, 2002 to January 25, 2003. The fiscal year ends on the last Saturday in January of a year.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiary corporation, Saan Stores Ltd.

(c) Earnings per share

Basic earnings per share is calculated using the daily weighted average number of shares outstanding during the respective fiscal years.

Diluted earnings per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all potential common shares been issued at the beginning of the year or when the underlying option was granted, if later.

(d) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires the Corporation to make estimates and assumptions that affect reported amounts of assets and liabilities, revenue and expenses, and the disclosure of contingencies. Future events could alter such estimates in the near future.

The Corporation operates in highly competitive markets. The Corporation has estimated the useful lives of property & equipment and the recoverable value of inventories based on historical customer patterns, industry trends and existing competitive factors. Significant changes in these factors could result in material impairment in the reported amounts for these assets.

(e) Cash and equivalents

Cash includes commercial paper investments with maturities of less than three months and other highly marketable investments.

(f) Inventories

The basis of valuation of inventories is the lower of cost and net realizable value determined by the retail method of accounting.

(g) Investments

Portfolio investments are carried at the lower of cost or market value when the decline in market value to below cost is considered to be other than temporary.

(h) Property & equipment and amortization

Property & equipment are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful life at the following annual rates:

Buildings	2%
Furniture, fixtures and equipment:	
Stores	14%
Office and warehouse	7%
Computer:	
Equipment	25%
Software	14 to 50%

Amortization of leasehold improvements is provided on a straight-line basis over the term of the lease plus one renewal option period, to a maximum of 10 years.

(i) Pension plans

The Corporation maintains an employee contributory defined benefit pension plan and a defined contribution pension plan. All employees who meet certain eligibility requirements must participate in one of the plans.

For the defined benefit plan, the cost of pensions is determined using the projected benefit method pro rated on service, market interest rates and management's best estimates on expected plan investment performance, salary escalation and retirement ages of plan members. A modified market method is used to value plan assets for the purposes of calculating the expected return on plan assets. Under this method, the quoted market value is the underlying basis, but unrealized gains and losses are averaged over a five year period. Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or modified market value of the plan are amortized over the estimated service life of the members of the plan.

For the defined contribution plan, the cost of pensions is the Corporation's contribution to the plan.

(j) Financial instruments

The carrying value of receivables, accounts payable and accrued liabilities approximate fair values due to their short term maturity. The carrying value of the credit facility and capital lease obligations approximates fair value based on rates currently available to the Corporation for debt with similar terms and maturities.

The Corporation does not consider itself exposed to a credit risk as the granting of credit is an insignificant part of its operations.

The Corporation is exposed to interest rate risk on its revolving credit facility. The interest rate is based on a Canadian Chartered Bank's prime interest rate and, accordingly, the Corporation is subject to short-term interest rate volatility.

The Corporation is exposed to market risk on its investment in Fort Chicago Energy Partners L.P. The security of the investment trades on a public stock exchange and, accordingly, the Corporation is subject to quoted market price volatility.

(k) Future income taxes

The Corporation utilizes the liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future income tax assets are recognized to the extent that realization is considered more likely that not.

(l) Revenue recognition

Revenue from merchandise sales is net of returns and allowances and excludes sales taxes. The Corporation records revenue upon receipt of payment from the customer.

3. INVESTMENT

(a)	Number of shares/units (000's)		Market Value ($000's)		Carrying Value ($000's)	
	2004	2003	**2004**	2003	**2004**	2003
Fort Chicago Energy Partners L.P.	**2,175**	1,961	**22,712**	13,931	**16,123**	14,189

During the year ended January 25, 2003, the Corporation determined that its investment should be reclassified from cash equivalents to a long-term portfolio investment.

(b) Investment income represents:	**2004 ($000's)**	2003 ($000's)
Interest income	**189**	388
Distributions from Fort Chicago Energy Partners L.P.	**1,545**	1,010
	1,734	1,398

4. PROPERTY & EQUIPMENT

	Cost		Accumulated amortization		Net	
	2004 ($000's)	2003 ($000's)	**2004 ($000's)**	2003 ($000's)	**2004 ($000's)**	2003 ($000's)
Land	**5,882**	4,576	**—**	—	**5,882**	4,576
Buildings	**19,994**	18,954	**7,351**	7,073	**12,643**	11,881
Furniture, fixtures and equipment	**61,743**	64,194	**51,828**	54,886	**9,915**	9,308
Computer equipment and software	**16,472**	13,460	**6,550**	5,806	**9,922**	7,654
Leasehold improvements	**20,315**	21,169	**14,572**	14,407	**5,743**	6,762
	124,406	122,353	**80,301**	82,172	**44,105**	40,181

(b) Included in property & equipment are capital leased assets with a cost of $5,842,000 (2003 - $4,323,000) less accumulated amortization of $1,552,000 (2003 - $572,000).

During the year ended January 31, 2004, in addition to property & equipment acquired by purchase of $11,214,000 (2003 - $7,565,000), the Corporation acquired capital leased assets at a cost of $1,594,000 (2003 - $4,323,000).

(c) During the year ended January 31, 2004, the Corporation signed a letter of intent for the sale of certain real estate properties. The sale is contingent on a definitive agreement being reached. The sale will be recorded on the closing date of the transaction, which is expected to occur in fiscal 2005.

5. ACCRUED PENSION ASSET

Information on the Corporation's defined benefit pension plan is as follows:

(a) Pension plan assets	2004 ($000's)	2003 ($000's)
Market related value – beginning of year	**55,249**	57,969
Investment income	**3,802**	1,348
Employee contributions	**949**	866
Benefits, refund of contributions and administrative expenses	**(4,641)**	(4,934)
Market related value – end of year	**55,359**	55,249
Quoted market value – end of year	**56,062**	52,953

The market related value of the pension plan net assets is based on quoted market values with unrealized gains and losses averaged over a five year period.

(b) Pension plan obligations	2004 ($000's)	2003 ($000's)
Accrued benefit obligation – beginning of year	**48,170**	45,597
Accrued interest on benefits	**3,057**	3,018
Accrued benefits	**2,235**	1,687
Benefits and refund of contributions	**(4,509)**	(4,768)
Change in assumptions	**—**	1,726
Experience loss	**(13)**	910
Accrued benefit obligation – end of year	**48,940**	48,170

The most recent actuarial valuation of accumulated pension benefits was made as at December 31, 2002.

Significant actuarial assumptions in measuring the Corporation's accrued benefit obligations are as follows:

	2004	2003
Discount rate	**6.50%**	6.50%
Expected long-term rate of return on pension plan assets	**6.50%**	6.50%
Rate of compensation increase	**2.35%**	2.35%

(c) Accrued pension asset	2004 ($000's)	2003 ($000's)
Pension plan surplus	**6,419**	7,079
Valuation allowance	**(2,069)**	(2,729)
Accrued pension asset	**4,350**	**4,350**

The valuation allowance represents the amount of surplus not recognized on the Corporation's balance sheet.

(d) Pension expense	2004 ($000's)	2003 ($000's)
Accrued benefits	**2,235**	1,687
Employee contributions	**(949)**	(866)
Accrued interest on benefits	**3,057**	3,018
Investment income	**(3,802)**	(1,348)
Change in assumptions	**—**	1,726
Experience gains or losses and administrative expenses	**119**	1,076
Change in valuation allowance	**(660)**	(5,293)
Pension expense from the defined benefit pension plan	**—**	—
Employer contribution to the defined contribution pension plan	**64**	71
Pension expense	**64**	71

6. CREDIT FACILITY

(a) The $65-million revolving credit facility with Congress Financial Corporation (Canada) is collateralized by a first floating charge over inventory and receivables of Saan Stores Ltd., the Corporation's subsidiary. The facility provides for a loan amount of up to 70% of the cost of inventory, determined monthly. The Corporation has also agreed to comply with various covenants commonly found in asset-based loan agreements. The facility expires on March 8, 2005. The interest rate is the prime rate as established from time to time by The Royal Bank of Canada, plus 1/2 of 1%. Additionally, the credit facility provides for an unused credit facility fee of 1/4 of 1% and a fee of 1% on outstanding letters of credit.

(b) During the year ended January 31, 2004, the Corporation incurred a finance cost of $2.9-million in the settlement of an option held by a previous lender to the Corporation. The previous lender gave notice of its intent to exercise its option to acquire from the Corporation 1.0-million units of Fort Chicago Energy Partners L.P. at $6.00 per unit. The Corporation elected to retain the 1.0-million units and settled the option by paying the difference between the fair market value of the units and the option price.

7. CAPITAL STOCK

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares.

(b) Common shares issued	Number of shares		Share Capital	
	2004	2003	**2004 ($000's)**	2003 ($000's)
Beginning of year	**15,486,423**	16,441,053	**16,279**	17,282
Cancelled	**(170,378)**	(954,630)	**(179)**	(1,003)
End of year	**15,316,045**	15,486,423	**16,100**	16,279

During the year ended January 31, 2004, under Normal Course Issuer Bids, 170,378 (2003 - 954,630) common shares were purchased for cancellation at an average cost of $2.21 (2003 - $1.97) per share. The excess of the purchase price over the $1.05 (2003 - $1.05) per share assigned value of the shares was charged to retained earnings. The current Normal Course Issuer Bid expires on December 17, 2004.

(c) Share option plans

The changes in the share options are as follows:

	Number of options		Weighted Average	
	2004	2003	**2004**	2003
Beginning of year	**21,000**	62,000	**13.77**	13.92
Expired	**(3,000)**	(41,000)	**(14.00)**	(14.00)
End of year	**18,000**	21,000	**13.73**	13.77

Information on the share options outstanding and exercisable by price is as follows:

Exercise price	Number of options		Weighted Average Contractual Life (years)	
	2004	2003	**2004**	2003
$12.50	**3,200**	3,200	**1.83**	2.85
$14.00	**14,800**	17,800	**1.24**	1.92
	18,000	21,000	**1.34**	2.06

At January 31, 2004, the expiration dates range from November 10, 2004 to November 29, 2005.

(d) Earnings per share	2004 ($000's)	2003 ($000's)
Numerator – Net earnings	**(9,144)**	352
Denominator – Weighted average number of shares outstanding		
Basic	**15,363**	16,115
Dilutive effect of stock options	**—**	—
Weighted average number of shares outstanding - diluted	**15,363**	16,115

8. INCOME TAXES

(a) Income taxes on earnings (losses) vary from the amounts that would be computed by applying the combined federal and provincial statutory income tax rates to the earnings (losses) before income tax. The following is a reconciliation of the combined statutory income tax to the effective income tax:

	2004 ($000's)	2003 ($000's)
Statutory income taxes at 36.4% (2003 - 39.0%)	**(3,308)**	80
Non deductible or taxable portion of capital gains or losses, investment income	**(401)**	(336)
Change in income tax rates	**630**	504
Future tax asset not recognized	**3,640**	453
Large corporations tax	**91**	203
Limitation of deductible amounts	**81**	78
Change in valuation allowance and other items	**(678)**	(1,150)
Income tax provision (recovery)	**55**	(168)

(b) At January 31, 2004, the Corporation has net capital losses of $564,000 that may be applied, in certain restrictive circumstances, to reduce taxable capital gains indefinitely in the future. The Corporation also has non capital losses of $33,098,000 that are subject to expiry. The Corporation may amend past tax filing positions to adjust capital cost allowance ('CCA') claims to mitigate expiry of non capital losses as follows:

Expiry date	Non capital loss ($000's)	Mitigating CCA claim ($000's)
2005	2,054	743
2006	5,572	5,572
2007	9,003	7,065
2010	1,144	1,144
2011	15,325	12,691

(c) Future income tax assets (liabilities) are comprised as follows:

	2004 ($000's)	2003 ($000's)
Non capital losses	**11,826**	6,766
Capital losses	**207**	224
Property & equipment	**(2,481)**	(1,011)
Investments	**(1,329)**	(1,033)
Accrued pension asset	**(1,500)**	(1,452)
Capital lease obligations	**1,338**	1,287
Other items	**306**	564
	8,367	5,345
Valuation allowance	**(8,367)**	(5,345)
	—	—

(d) During the year ended January 26, 2002, the Corporation received notices of assessment levying additional income taxes and interest on the sale by the Corporation of shares of Sony of Canada Ltd. in 1995. The Corporation has filed a notice of objection with the Canada Revenue Agency, has made application to the Courts on certain jurisdictional matters and believes that it has substantial arguments to support its original filing position.

The Corporation has paid the entire amount of the income taxes and interest in the amount of $28,361,000. Pending resolution of the appeal and Court proceedings, this amount is included as a recoverable item on the financial statements. If the Corporation is successful, this amount plus additional interest will be refunded. Should the reassessment be confirmed, the amount will be a charge to earnings in that year.

9. COMMITMENTS

(a) During the year ended January 31, 2004, rent paid on property and equipment leases amounted to $19,286,000 (2003 - $18,117,000). Minimum annual rent in future years (exclusive of additional amounts based on percentage of sales, taxes, insurance and other occupancy charges) on long-term property and equipment leases, the longest of which expires in the year 2013 are as follows:

Year ending January	Operating Leases ($000's)	Capital Leases ($000's)
2005	20,339	1,797
2006	16,478	1,435
2007	13,216	637
2008	9,644	206
2009	7,249	44
thereafter	17,052	—
Total future minimum lease payments		4,119
Less imputed interest at 8.2%		409
Present value of minimum lease payments		3,710
Less current portion of capital lease obligations		1,509
Long-term portion of capital lease obligations		2,201

(b) At January 31, 2004, the Corporation has letters of credit outstanding of $4,195,000 (2003 - $7,223,000) primarily relating to the purchase of inventory.

(c) The restructuring credits represent recoveries from the Trustee of the Estate of Greenberg Stores Limited and a reduction to the provision for expenses.

10. SUBSEQUENT EVENT

(a) On March 8, 2004, the Corporation arranged for a $10-million credit facility, collateralized by its investment in Fort Chicago Energy Partners L.P. The interest rate is the prime rate as established from time to time by The Bank of Nova Scotia. Loans are repayable on demand. The credit facility expires on October 1, 2004.

(b) On March 10, 2004, the Corporation acquired 50,000 shares of Opti Canada Inc. for cash consideration of $953,000.

11. SEGMENT INFORMATION

The Corporation has identified the following reportable segments. The Retail segment consists of Saan Stores Ltd., which operates junior department and family clothing stores across Canada. The Corporate & Realty segment consists of 14 (2003 - 16) properties across Canada. Approximately 85% (2003 - 85%) of the leasable area of the properties is in support of the Retail operations. The Corporate & Realty segment also includes an investment in Fort Chicago Energy Partners L.P. All revenues and operating expenses pertain exclusively to Canada. Intersegment revenue is rent, management fees and interest charged by the Corporate & Realty segment to the Retail segment.

Segment operating results are as follows:

($000's)		Retail	Corporate & Realty	Intersegment Elimination	Consolidated
External revenue	**2004**	**311,098**	**633**	**—**	**311,731**
	2003	321,449	238	—	321,687
Intersegment revenue	**2004**	**—**	**1,723**	**(1,723)**	**—**
	2003	—	2,252	(2,252)	—
Interest and other finance expense	**2004**	**2,263**	**2,912**	**(263)**	**4,912**
	2003	2,194	—	(232)	1,962
Investment income	**2004**	**—**	**1,734**	**—**	**1,734**
	2003	—	1,398	—	1,398
Gain on sale of real estate properties	**2004**	**—**	**468**	**—**	**468**
	2003	—	135	—	135
Restructuring credits	**2004**	**—**	**321**	**—**	**321**
	2003	—	1,984	—	1,984
Income tax recovery (expense)	**2004**	**(30)**	**(25)**	**—**	**(55)**
	2003	(135)	303	—	168
Earnings (loss) for the year	**2004**	**(8,712)**	**(432)**	**—**	**(9,144)**
	2003	(3,617)	3,969	—	352
Significant non cash items:					
Amortization of property & equipment	**2004**	**7,165**	**458**	**—**	**7,623**
	2003	7,404	412	—	7,816
Gain (loss) on sale of property & equipment	**2004**	**(153)**	**467**	**—**	**314**
	2003	(197)	135	—	(62)
Restructuring credits	**2004**	**—**	**—**	**—**	**—**
	2003	—	(1,153)	—	(1,153)
Segment assets	**2004**	**83,703**	**78,079**	**(5,000)**	**156,782**
	2003	93,481	79,655	(5,000)	168,136
Acquisition of property and equipment	**2004**	**9,326**	**3,482**	**—**	**12,808**
	2003	10,352	1,536	—	11,888

FIVE YEAR FINANCIAL REVIEW

(in thousands of dollars, except per share data)

Fiscal period ended	**January 31, 2004**	January 25, 2003	January 26, 2002	January 27, 2001	January 29, 2000
Operating Results					
Revenue	**311,731**	321,687	336,417	367,714	392,265
Retail	**311,098**	321,449	336,145	365,934	389,321
Corporate & Realty	**633**	238	272	1,780	2,944
Interest expense	**4,912**	1,962	2,379	5,208	9,755
Gain (loss) on investments	**—**	—	14,471	28,439	5,413
Gain on sale of real estate	**468**	135	719	16,887	703
Restructuring credit	**321**	1,984	—	5,154	—
Income tax (expense) recovery	**(55)**	168	(71)	(6,091)	1,301
Net earnings (loss)	**(9,144)**	352	16,688	63,011	4,281
Retail	**(8,712)**	(3,617)	2,204	2,022	(8,948)
Corporate & Realty	**(432)**	3,969	14,484	60,989	13,229
Dividends	**—**	—	53,488	72,167	503
Issue (cancellation) of share capital	**(377)**	(1,878)	(1,061)	750	—
Cash flow from earnings	**(2,459)**	6,892	10,509	19,263	(4,307)
Acquisition of property & equipment	**12,808**	11,888	7,593	3,684	4,488
Financial Position					
Total assets	**156,782**	168,136	162,144	209,790	267,270
Total invested capital	**135,831**	144,367	137,364	176,802	233,069
Long-term debt	**25,853**	24,868	16,061	21,037	70,031
Future income tax liability (asset)	**—**	—	278	678	(4,255)
Shareholders' equity	**109,978**	119,499	121,025	155,087	167,293
Per Common Share					
Earnings (loss) – full year	**(0.60)**	0.02	0.98	3.74	0.26
1st Qtr	**(0.52)**	(0.38)	(0.24)	(0.06)	(0.34)
2nd Qtr	**(0.13)**	0.14	1.05	1.28	0.24
3rd Qtr	**0.01**	0.06	0.15	1.13	0.07
4th Qtr	**0.04**	0.20	0.02	1.39	0.29
Dividends	**—**	—	3.15	4.25	0.03
Shareholders' equity	**7.18**	7.72	7.36	9.36	9.97
Other					
Common shares outstanding	**15,316,045**	15,486,423	16,441,053	16,980,655	16,780,655
Share price (1)					
- High	**2.85**	2.85	5.25	9.50	6.00
- Low	**1.82**	1.50	1.71	4.00	3.00

Notes:

(1) For Canadian capital gains tax purposes, the Valuation Day value of Gendis Inc. common shares on December 22, 1971 was $2.98.

CORPORATE & SHAREHOLDER INFORMATION

GENDIS INC. BOARD OF DIRECTORS

ALBERT D. COHEN, O.C., LL.D
President, Chief Executive Officer and Chairman
Gendis Inc.

JAMES E. COHEN
Executive Vice-President
Gendis Inc.

JERRY L. GRAY, Ph.D.
Dean, The Asper School Of Business
University of Manitoba

LAWRENCE O. POLLARD
Chairman
Pollard Banknote Limited

BARRY C. STEERS, LL.D
Corporate Director

SAAN STORES LTD. CORPORATE OFFICERS

ALBERT D. COHEN, O.C., LL.D
Chairman & Chief Executive Officer

JAMES E. COHEN
Vice-Chairman
Interim President & Chief Operating Officer

NORMAND NOWLAN
Executive Vice-President, Business Development
Interim Vice-President, Sales & Operations

JACK SORENSON
Executive Vice-President, Finance & Administration

JIM HALE
Vice-President, Information Technology

MICHAEL BROWN
Vice-President, Merchandise Planning

PAMELA O'ROURKE
Vice-President, Merchandise Buying

N. PAUL CLOUTIER
Secretary

GENDIS INC. CORPORATE OFFICERS

ALBERT D. COHEN, O.C., LL.D
President, Chief Executive Officer and Chairman

JAMES E. COHEN
Executive Vice-President

N. PAUL CLOUTIER
Vice-President, Secretary & General Counsel

ERNEST B. REINFORT
Vice-President, Finance & Comptroller

BARRY C. STEERS
Assistant Secretary

LAWRENCE O. POLLARD
Assistant Treasurer

SHAREHOLDER INFORMATION

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BANKER
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EXCHANGE LISTING
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Common shares of the company trade under the symbol: GDS

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